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ARIOSA DIAGNOSTICS, INC.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

VERINATA HEALTH, INC.,
Plaintiff and
Counterclaim-Defendant,

vs.

ARIOSA DIAGNOSTICS, INC.,
Defendant and
Counterclaim-Plaintiff.

ILLUMINA, INC.,
Plaintiff and Counterclaim-
Defendant
vs.
ARIOSA DIAGNOSTICS, INC.,
Defendant and Counterclaim-
Plaintiff.

) Lead Case No. 3:12-cv-05501-SI
) Case No. 3:14-cv-01921-SI
) Case No. 3:15-cv-02216-SI
)

) **ARIOSA DIAGNOSTICS, INC.'S**
) **OPPOSITION TO ILLUMINA, INC.'S**
) **ANTI-SLAPP MOTION [D.I. 400]**
)

) Judge: Hon. Susan Illston
)

) Date: October 12, 2017
) Time: 10:00 a.m.
) Ctrm.: 1, 17th Floor
)

1 ILLUMINA, INC.,)
2)
3 Plaintiff and Counterclaim-)
4 Defendant)
5 vs.)
6 ARIOSIA DIAGNOSTICS, INC.,)
7 Defendant and Counterclaim-)
8 Plaintiff.)
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I. INTRODUCTION

More than three years after Ariosa filed its Counterclaims, after a motion to dismiss, a motion to compel arbitration, two trips to the Federal Circuit, and extensive fact and expert discovery, Illumina now moves to dismiss Ariosa’s Counterclaims pursuant to California Code of Civil Procedure section 425.16 (the “anti-SLAPP” procedure). As the California Supreme Court has explained, the anti-SLAPP procedure’s purpose is to enable defendants sued for exercising their First Amendment rights to “promptly rid themselves of meritless lawsuits” which lack “even minimal merit.” *Varian Med. Sys., Inc. v. Delfino*, 113 Cal. App. 4th 273, 310 (2003), *rev’d on other grounds*, 35 Cal. 4th 180 (2005). Illumina’s motion is entirely disconnected from both the purpose and requirements of the California anti-SLAPP procedure, and should be denied.

As an initial matter, the anti-SLAPP procedure is established by the California Code of Civil Procedure, and has no application to Ariosa’s Counterclaims, which present issues of patent law and therefore arise under federal law. Illumina does not even address this dispositive issue.

Even if the Court could properly reach the merits of Illumina’s anti-SLAPP motion, Illumina falls far short of demonstrating that Ariosa’s claims lack “even minimal merit.” As discussed in Ariosa’s concurrently filed Opposition to Plaintiffs’ Motion for Summary Judgment (“Opp. to Pls.’ MSJ”), there are, at a minimum, genuine disputes of fact for the jury to decide. Illumina’s failure to carry its burden on summary judgment mandates denial of the instant motion. *Parrish v. Latham & Watkins*, 3 Cal. 5th 767, 778 (2017) (denial of summary judgment establishes probable cause for bringing the claims).

The Sale and Supply Agreement (“SSA”) that forms the basis for Ariosa’s Counterclaims obligated Illumina to provide a three-year supply of Goods to be used in Ariosa’s Harmony™ Prenatal Test, along with IP rights pertaining to Ariosa’s use of the Goods. Those rights include an express license to Illumina’s “Core IP” rights, as well as an express representation

[REDACTED]

[REDACTED]

[REDACTED]

After Illumina acquired Verinata in 2013 and became a competitor to Ariosa, the Illumina-Ariosa relationship significantly deteriorated. Illumina began sending a series of letters with pretextual assertions that Ariosa was in breach of the SSA, and ultimately threatened Ariosa with the possibility of termination (which would cut off Ariosa's supply of sequencers and reagents). Then, the day after Ariosa announced the pricing for its forthcoming IPO, Illumina sued Ariosa for infringement of the '794 patent in breach of the express and implied licenses to IP rights that Illumina granted under the SSA. Both the pretextual assertions of breach and the filing of the lawsuit clearly violate both the letter and the intent of the SSA, which required Illumina to provide a three-year supply of the Goods along [REDACTED]

Illumina's argument that the SSA conferred no rights to the '794 patent because that patent supposedly does not "pertain to" Ariosa's use of the goods supplied by Illumina has no merit. It flies in the face of Illumina's own infringement contentions. Indeed, Illumina's infringement expert *relies solely on Ariosa's use of Illumina's sequencers* to meet steps (f) and (g) of claim 1, the only independent claim of the '794 patent. To meet the other steps of the claim, Illumina's expert relies on Ariosa's DANSR library preparation assay, the purpose of which is to produce *inputs to Illumina's sequencers*. As such, the notion that the '794 patent, as Illumina itself has interpreted it, does not "pertain to" Ariosa's use of Illumina's sequencers lacks credibility. Ariosa's claims that Illumina breached the SSA and the covenant of good faith and fair dealing thus significantly exceeds the "potential merit" bar to overcome an anti-SLAPP challenge.

Ariosa respectfully requests that Illumina's anti-SLAPP motion be denied.

II. FACTUAL AND PROCEDURAL BACKGROUND

Ariosa began development of a non-invasive prenatal screening test for fetal chromosomal abnormalities, the Harmony™ Prenatal Test, in 2008. As part of this process, Ariosa raised capital from a number of investors, including Illumina. Ariosa entrusted Illumina with detailed technical

1 and financial documents and information about its product, in its capacity as an investor. Ex.¹ 45
2 (AD-VER-00019238) at -249.

3 [REDACTED]
4 [REDACTED]
5 [REDACTED] Ariosa demonstrated how the sequencing-based Harmony Prenatal test
6 worked, and gave Illumina a presentation that contained highly confidential and propriety
7 information about Ariosa's technology. *Id.* Ariosa disclosed [REDACTED]
8 [REDACTED] details concerning its target enrichment assay, which it called "DANSR" ("Digital
9 ANalysis of Selected Regions"). Ex. 48 (ILMNA00241191) at -202-205; Ex. 41 (Song Tr.) at
10 140:3-7, 142:15-143:3. The DANSR assay produces a library of amplification products that were,
11 in turn, the inputs to an Illumina sequencer for DNA analysis. Ex. 48 (ILMNA00241191) at -203.
12 As Ariosa's CEO Ken Song testified, at this meeting, Ariosa was "actually providing details
13 around what the format of the assay is and showing where—where it is, at least in the overall
14 testing process." Ex. 41 (Song Tr.) at 143:13-144:16; *see also* Ex. 22 (Stuelpnagel Tr.) at 226:11-
15 227:15 (testifying that Ariosa informed Illumina that the assay was its "go-forward strategy" for
16 the commercial Harmony product); 228:23-229:21 (same).

17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24
25
26 ¹ "Ex." herein refers to the exhibits (nos. 1-19) filed with the 9/1/2017 Declaration of Sandra L.
27 Haberny, D.I. 404 and 409, and the exhibits (nos. 20-68) concurrently filed with the 9/15/2017
28 Declaration of Sandra L. Haberny In Support Of Ariosa Diagnostics, Inc.'s Oppositions To
Plaintiffs And Counterclaim Defendants Illumina, Inc. And Verinata Health, Inc.'s Motion For
Summary Judgment And Illumina, Inc.'s Anti-SLAPP Motion.

1 Illumina also was a key supplier to Ariosa. Before Harmony’s commercial launch in 2012,
2 Ariosa and Illumina entered into the SSA. Under the SSA, Ariosa agreed to purchase Illumina’s
3 sequencing equipment and chemical reagents to be used in performing the Harmony Test
4 (collectively referred to as the “Goods”). Ex. 44 (SSA) at §§ 1-2. [REDACTED]

5 [REDACTED]
6 [REDACTED] *Id.* In return, Illumina was required,
7 for the three-year term, to provide the Goods and a related bundle of IP rights, for the use of the
8 Goods in the Customer Field of Use, defined in pertinent part as “commercial services for the cell-
9 free detection of fetal chromosomal abnormalities . . . using DNA sequencing . . .” *Id.* § 1.

10 The SSA divides all intellectual property rights that pertain to the use of the Goods into
11 two categories: “Core IP Rights” and “Secondary IP Rights.” *Id.*, §§ 3(a), 4(a). The SSA defines
12 “Core IP Rights” as “those Illumina Intellectual Property Rights that pertain to the Goods (and use
13 thereof in accordance with their Documentation) other than Secondary Illumina IP Rights in
14 Goods[.]” *Id.*, § 1. The SSA grants Ariosa the right to use “Core IP Rights in Goods to use and
15 import . . . the Goods only in the Customer Field of Use.” *Id.*, § 3(a).

16 The SSA defines “Secondary IP Rights” as “the secondary Illumina Intellectual Property
17 Rights that pertain to the Goods (and use thereof) only with regard to particular field(s) or
18 application(s), and are not common to the Goods in all applications and fields.” *Id.* Ariosa had the
19 responsibility to “identify and ensure” that it had any such necessary rights from third parties and
20 Illumina. *Id.*, § 4(a). Satisfying that responsibility was of significant importance to Ariosa. Ariosa
21 accordingly [REDACTED]

22 [REDACTED] Ariosa did not need an additional
23 license from Illumina to Secondary IP Rights for its Harmony test. [REDACTED]

24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28

1 [REDACTED]
2 [REDACTED]

3 Thus, with respect to all use by Ariosa that “pertain[s] to the Goods,” the SSA grants
4 Ariosa either an express license or [REDACTED]
5 [REDACTED] does not require a license to any Illumina IP. As noted above, under the
6 SSA, “Core” and “Secondary” IP Rights in Goods together encompass “Illumina Intellectual
7 Property Rights that *pertain to the Goods (and use thereof).*” *Id.*, § 1 (emphasis added).

8 A year after executing the SSA, on January 7, 2013, Illumina acquired Verinata Health,
9 Inc., and entered into the non-invasive prenatal testing (“NIPT”) market as a competitor to Ariosa.
10 Thereafter, Illumina began making pretextual claims of breach against Ariosa, including an
11 allegation that Ariosa was not permitted to report fetal sex to patients. Ex. 51 (ILMNA00242150-
12 2151, dated 1/10/14). Illumina knew this assertion had no merit; indeed, fetal sex was necessarily
13 revealed by testing for aneuploidy of sex chromosomes, which was expressly permitted under the
14 SSA [REDACTED]. *See* Ex. 44 (SSA) at § 1
15 (“Customer Field of Use” defined as “cell-free detection of fetal chromosomal aneuploidies
16 having a length greater than one megabase”); Ex. 48 (ILMNA00241191) at -208 [REDACTED]
17 [REDACTED]
18 [REDACTED] (emphasis added). The assertion therefore had no purpose
19 other than to intimidate Ariosa and disrupt Ariosa’s operations. Illumina also claimed, without
20 basis and in [REDACTED], that Ariosa did not have
21 the proper intellectual property licenses necessary to use the Goods. Ex. 51 (ILMNA00242150-
22 2151, dated 1/10/14).

23 On April 24, 2014, Ariosa made an SEC filing that announced pricing for its IPO. Within
24 hours of this filing, Illumina sent a letter to Ariosa stating that it was revoking all offers to amend
25 the SSA and raising the specter of potential termination. Ex. 52 (AD-VER-01270726) [REDACTED]
26 [REDACTED]
27 [REDACTED] The letter made no
28 mention of the ’794 patent, nor indicated any need for Ariosa to license the patent. The next day,

1 Illumina filed the '794 infringement action and issued a press release to maximize the public
2 impact. The timing of Illumina's actions was not a coincidence. Illumina intended to, and did,
3 disrupt Ariosa's operations and its plans to launch an IPO. Now embroiled in a patent
4 infringement lawsuit brought by its sole supplier of sequencers and reagents, Ariosa was forced to
5 cancel its IPO, ultimately depressing the company's value.

6 On June 11, 2014, Ariosa filed its Counterclaims for breach of contract and the implied
7 covenant of good faith and fair dealing. Case No. 14-cv-01921, D.I. 26-4. Illumina moved to
8 dismiss the Counterclaims, including pursuant to the SSA's arbitration provision. *Id.*, D.I. 31. In
9 response, Ariosa invoked the exception to the SSA's arbitration provision, which provides that
10 disputes regarding "issues of scope, infringement, validity and/or enforceability of any Intellectual
11 Property Rights" are nonarbitrable. *Id.*, D.I. 35-5; *see also* Case No. 3:12-cv-05501, D.I. 251. This
12 Court denied Illumina's motion, holding that the Counterclaims are subject to the exception
13 because they "unambiguously relate to issues of infringement of a patent." Case No. 14-cv-01921,
14 D.I. 40, at 5. Illumina appealed to the Federal Circuit, which initially found that it did not have
15 appellate jurisdiction. Illumina then re-filed the same arguments as a motion to compel arbitration.
16 Case No. 3:12-cv-05501, D.I. 250, at 5-6. This Court denied Illumina's motion on the same
17 grounds as it had denied the motion to dismiss, D.I. 266, and Illumina again appealed. On July 26,
18 2016, the Federal Circuit affirmed this Court's order. *Verinata Health, Inc. v. Ariosa, Inc.*, 830
19 F.3d 1335 (Fed. Cir. 2016).

20 On September 1, 2017, more than a year after the Federal Circuit's opinion, more than
21 three years after the Counterclaims were originally filed, and after several years of fact and expert
22 discovery, Illumina filed its anti-SLAPP motion.

23 **III. THE ANTI-SLAPP PROCEDURE IS INAPPLICABLE TO ARIOSAS CLAIMS,**
24 **WHICH ARE SUBJECT TO EXCLUSIVE FEDERAL JURISDICTION**

25 Illumina's motion ignores the threshold issue: whether California Code of Civil Procedure
26 section 425.16 is applicable to the challenged Counterclaims. It is not. As Illumina admits, this
27 Court has already held that the "Counterclaims are inextricably linked to questions of patent
28 infringement." Mtn. at 7:5-9. The portion of Illumina's Counterclaims based on Illumina's filing

1 of the instant suit in violation of the SSA’s IP provisions require the resolution of substantial
 2 patent issues, including the scope of the licensed patents, and are thus federal question claims.²
 3 Accordingly, California’s state law anti-SLAPP procedure is simply inapplicable. *See Hilton v.*
 4 *Hallmark Cards*, 599 F.3d 894, 901 (9th Cir. 2010) (“the anti-SLAPP statute does not apply to
 5 federal law causes of action”); *Globetrotter Software, Inc. v. Elan Comput. Grp., Inc.*, 63 F. Supp.
 6 2d 1127, 1130 (N.D. Cal. 1999) (“Globetrotter argues that the anti-SLAPP statute should be
 7 applied to federal question claims . . . This argument is not supported by the *Erie* rationale”).³

8 Supreme Court precedent dictates that a state law claim “arises under” federal law if a
 9 patent issue is “(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of
 10 resolution in federal court without disrupting the federal-state balance approved by Congress.”
 11 *Gunn v. Minton*, 568 U.S. 251, 257-58 (2013) (purely hypothetical patent issues in malpractice
 12 claims not “substantial” as they did not impact scope or validity and would not “stand as binding
 13 precedent for any future patent claim”). *Id.* at 264. Each element of the *Gunn* test is met here.

14 **First**, the Federal Circuit has already held that the Counterclaims necessarily raise
 15 questions of patent scope. *Verinata*, 830 F.3d at 1341 (“The counterclaims all rise or fall on the
 16 scope determination of licensed intellectual property rights[.]”). Further, this Court previously
 17 held that the Counterclaims at issue “unambiguously relate to issues of infringement of a patent.”
 18 Case No. 14-cv-01921, D.I. 40, at 5; Case No. 3:12-cv-05501, D.I. 266, at 5; *see also Verinata*,
 19 830 F.3d at 1340 (“Ariosa’s counterclaims are not about licensing or a license defense in the
 20
 21

22 ² Ariosa’s claim for breach of the covenant of good faith and fair dealing based on Illumina’s
 23 pretextual assertions of breach in connection with fetal sex determination, in contrast, does not
 24 arise under federal law. However, as discussed in Section IV.B, Illumina does not contend that this
 claim is subject to the anti-SLAPP procedure, nor can it.

25 ³ The *Erie* doctrine takes its name from *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938). The “twin
 26 aims” of *Erie* are to ensure that state law is applied in federal court where to do otherwise would
 27 encourage “forum-shopping” and “inequitable administration of the laws.” *Hanna v. Plumer*, 380
 28 U.S. 460, 468 (1965); *see also Gasperini v. Ctr. for Humanities*, 518 U.S. 415, 462 n.8 (1996).
 These considerations are not relevant to claims arising under patent law, which can only be filed in
 federal court. Notably, none of the cases cited by Illumina involved application of the anti-SLAPP
 procedure to federal question claims.

abstract”); *id.* at 1341 (“Illumina fails to articulate how to separate as discrete the patent infringement issues involved in the contract counterclaims.”).

The Counterclaims allege breach by Illumina of its express license to “Core IP” and representation that Illumina [REDACTED]

[REDACTED] As discussed further below and in the parties’ summary judgment briefs, this dispute turns on whether the ’794 patent “pertains to” Illumina’s Goods and Ariosa’s use thereof. *See* Pls.’ MSJ [D.I. 395] at 9-11, 13-14; *See* concurrently-filed Ariosa Diagnostics, Inc.’s Opposition to Plaintiffs and Counterclaim Defendants Illumina, Inc. and Verinata Health, Inc.’s Motion for Summary Judgment, at § III.B. The scope of Illumina’s Core and Secondary IP Rights, including how the ’794 patent claims relate to Illumina’s sequencers and reagents and Ariosa’s use thereof, thus are at the center of the Counterclaims.

Second, these patent questions are disputed, as the Federal Circuit also confirmed. *Verinata*, 830 F.3d at 1340 (“Illumina put the scope of licensed patent rights in issue by suing Ariosa for patent infringement.”). Indeed, a review of Illumina’s pending Motion for Summary Judgment indicates that Illumina disputes virtually every aspect of Ariosa’s Counterclaims.

Third, the issues in dispute—scope of the licensed patents and relationship of the ’794 patent to Ariosa’s use of the Goods—are substantial patent issues. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (claim for breach of license subject to exclusive federal jurisdiction where infringement issues implicated); *Immunocept, LLC v. Fulbright & Jaworski LLP*, 504 F.3d 1281, 1285 (Fed. Cir. 2007) (“As a determination of patent infringement serves as the basis of § 1338 jurisdiction over related state law claims, so does a determination of claim scope.”), *limited on other grounds by Gunn*, 568 U.S. at 258 (limiting the use of hypothetical claim analysis as the basis for federal jurisdiction); *Levi Strauss & Co. v. Aqua Dynamics Sys.*, No. 15-cv-04718, 2016 U.S. Dist. LEXIS 46738, at *13-14 (N.D. Cal. Apr. 6, 2016) (breach of license agreement claim presented a federal question); *Alexsam, Inc. v. Green Dot Corp.*, No. 15-cv-05742, 2015 U.S. Dist. LEXIS 134689, at *9 (C.D. Cal. Sept. 28, 2015) (“Just as in *Dray*, any determination of whether the Agreement was breached will require the Court to interpret the []

patents”). Unlike the patent-related issues in *Gunn* which were purely “hypothetical,” here the issues are directly linked to the live infringement claims at issue, and will have a real-world impact on the asserted patents.

Fourth, the issues are “capable of resolution in federal court.” Indeed, it is law of the case that resolution of the Counterclaims in federal court is proper. Case No. 14-cv-01921, D.I. 40; Case No. 3:12-cv-05501, D.I. 266; *Verinata*, 830 F.3d at 1340-41.

Because the Counterclaims at issue on this motion do not arise under state law, but rather are subject to exclusive federal jurisdiction, California state anti-SLAPP procedure is simply inapplicable. Illumina’s motion can and should be rejected at the outset on this basis.⁴

IV. ILLUMINA DOES NOT SATISFY THE ANTI-SLAPP STANDARD

Even if the anti-SLAPP procedure were applicable to Ariosa’s Counterclaims arising under federal law (which it is not), Illumina falls far short of the anti-SLAPP standard.

A motion pursuant to California Code of Civil Procedure section 425.16 involves a two-step process: “First, the moving defendant must make a prima facie showing ‘that the act or acts of which the plaintiff complains were taken ‘in furtherance of the [defendant]’s right of petition or free speech under the United States or California Constitution in connection with a public issue,’ as defined in the statute.” *City of Montebello v. Vasquez*, 1 Cal. 5th 409, 420 (2016) (citation omitted). “If the defendant makes this initial showing of protected activity, the burden shifts to the plaintiff at the second step to establish a probability it will prevail on the claim.” *Id.* “The plaintiff need only state and substantiate a legally sufficient claim [for which t]he plaintiff’s evidence is

⁴ Ariosa also preserves for appeal the question of whether the anti-SLAPP procedure ever can be properly applied in federal court and, if so, whether it is improper to do so piecemeal without retaining key features such as the 60-day provision. *Travelers Cas. Ins. Co. v. Hirsh*, 831 F.3d 1179, 1186 (9th Cir. 2016) (Gould, J., concurring) (“anti-SLAPP motion has no proper place in federal court in light of the Federal Rules of Civil Procedure”); *Makaeff v. Trump Univ., LLC*, 715 F.3d 254, 274 (9th Cir. 2013) (Kozinski, C.J. concurring) (“The California anti-SLAPP statute cuts an ugly gash through [the FRCP’s] orderly process” by implementing new timelines, standards, and awards of attorneys’ fees); *id.* at 275 (Paez, J., concurring) (“California’s anti-SLAPP statute is ‘quintessentially procedural,’ and its application in federal court has created a hybrid mess that now resembles neither the Federal Rules nor the original state statute”); *Makaeff v. Trump Univ., LLC*, 736 F.3d 1180, 1188 (9th Cir. 2013) (Watford, J., dissenting from denial of *en banc* hearing joined by Kozinski, C.J., Paez, J., and Bea, J.).

accepted as true [and] the defendant’s evidence is evaluated to determine if it defeats the plaintiff’s showing as a matter of law.” *Id.* (citations omitted). “Only a [claim] that satisfies both prongs of the anti-SLAPP statute—*i.e.*, that arises from protected speech or petitioning and lacks even minimal merit—is a SLAPP, subject to being stricken under the statute.” *Navellier v. Sletten*, 29 Cal. 4th 82, 89 (2002); *see Park v. Bd. of Trs. of Cal. State Univ.*, 2 Cal. 5th 1057, 1061 (2017) (holding same).

As explained in Ariosa’s concurrently-filed Opposition to Plaintiffs’ Motion for Summary Judgment, the Counterclaims clearly possess “potential merit”—all that is required to defeat an anti-SLAPP motion. *See Roberts v. McAfee, Inc.*, 660 F.3d 1156, 1163 (9th Cir. 2011). A court may not grant an anti-SLAPP motion unless “as a matter of law, the defendant’s evidence supporting the motion defeats the plaintiff’s attempt to establish evidentiary support for the claim.” *Id.* (citation omitted). “In the anti-SLAPP context, ‘probability [of success]’ is a low bar.” *Id.* at 1163. Ariosa significantly exceeds this bar.

A. Ariosa’s Contract Counterclaims

The elements of breach of contract are (1) a valid contract, (2) substantial performance by the plaintiff, (3) the defendant’s failure to perform or action in violation of the contract, and (4) a showing that such failure or action was a substantial factor in harm to the plaintiff. CACI Jury Instruction No. 303.

Here, there is no dispute that the first two elements are met. The SSA is a valid contract. Mtn. at 9. Further, Ariosa has substantially performed its obligations under the SSA, which were to purchase [REDACTED] [REDACTED] Ex. 44 (SSA) at §§ 1-2. Mtn. at 10 (“Ariosa continued to purchase . . . the Goods until the Agreement expired by its terms in January 2015”). As discussed below, and in further detail in the Opposition to Illumina’s Motion for Summary Judgment, hereby incorporated by reference, the two disputed elements are also met.

1. Illumina Breached The SSA’s Express License And Representations Regarding “Illumina Intellectual Property”

The SSA defines “Core IP Rights” as “those Illumina Intellectual Property Rights that pertain to the Goods (and use thereof in accordance with their Documentation) other than Secondary Illumina IP Rights in Goods[.]” Ex. 44 (SSA) at § 1. The SSA expressly grants Ariosa a license to “Core IP Rights in Goods to use and import . . . the Goods only in the Customer Field of Use.” *Id.*, § 3(a).

The SSA defines “Secondary IP Rights” as “the secondary Illumina Intellectual Property Rights that pertain to the Goods (and use thereof) only with regard to particular field(s) or application(s), and are not common to the Goods in all applications and fields.” *Id.* Ariosa had the responsibility to “identify and ensure” that it had any necessary rights from third parties and Illumina. *Id.*, § 4(a). Ariosa specifically negotiated [REDACTED]

As noted above, under the SSA, “Core” and “Secondary” IP Rights in Goods together encompass all “Illumina Intellectual Property Rights that *pertain to the Goods (and use thereof)*” in the Customer Field of Use. *Id.*, § 1 (emphasis added). Thus, with respect to all use by Ariosa that “pertain[s] to the Goods (and use thereof),” the SSA grants Ariosa either an express license or a representation [REDACTED] There is no dispute the ’794 patent fell within the definition of “Illumina Intellectual Property” as of the effective date of the SSA. *See* Case No. 3:14-cv-01921, D.I. 1 at ¶¶ 3, 12-13. Further, there is no dispute that [REDACTED]

Thus, the question presented is whether the ’794 patent “pertains to” Ariosa’s “use” of Illumina’s HiSeq instrument and reagents. If it does, then Ariosa either had an express license to the patent (as “Core IP Rights in Goods”) or a representation [REDACTED]

1 [REDACTED] Ariosa
2 believes that the '794 patent is best understood as falling under "Core IP."⁵ If the '794 patent is
3 instead "Secondary IP," however, Ariosa's claims are equally meritorious. In either case, Illumina
4 wrongfully sued Ariosa on a patent to which it was already granted rights pursuant to the SSA.

5 Illumina's own infringement contentions and expert report demonstrate that the '794 patent
6 does in fact "pertain to" Ariosa's use of Illumina's sequencers under Illumina's own infringement
7 theory, and therefore necessarily constitutes Core IP or Secondary IP Rights. Claim 1 of the '794
8 patent, the only independent claim in the patent, claims a method comprising steps (a) through (g).
9 In its infringement contentions and expert report, Illumina claims that aspects of Ariosa's "target
10 region enrichment" process and "detection (sequencing)" process, *using Illumina sequencers*,
11 together satisfy method steps (a) through (f) of the '794 patent. In particular, Illumina's
12 infringement expert, Dr. Cooper, *relies solely on Ariosa's use of Illumina's sequencers* to meet
13 steps (f) and (g). Ex. 40 (Cooper Rpt.) at ¶¶ 127 (alleging that step (f) performed by "sequencing
14 on an Illumina HiSeq instrument" [REDACTED] 136 (alleging that
15 for step (g), "the sequence identities of each amplicon are read via Illumina sequencing
16 chemistry"). To meet the other steps of the claim, Dr. Cooper relies on Ariosa's target region
17 enrichment, which comprises the DANSR library preparation assay. This assay provides the input
18 to the Illumina sequencer. According to Dr. Cooper, it is precisely the DANSR assay's enrichment
19 and amplification—the purpose of which is to produce amplification products for ultimate
20 sequencing in an Illumina sequencer—that Illumina contends practices the '794 patent. *See, e.g.*
21 Ex. 40 (Cooper Rpt.) at ¶¶ 77, 82-106, 116, 121-125, 126-143; *see also* Opp. to Pls.' MSJ at
22
23

24 ⁵ "Core IP Rights" are defined negatively: "Illumina Intellectual Property Rights that pertain to the
25 Goods (and use thereof . . .) *other than Secondary Illumina IP Rights*." Ex. 44 (SSA) § 1
26 (emphasis added). In its co-pending Motion for Summary Judgment, Illumina maintains that the
27 '794 patent "does not even fall under th[e] category" of "Secondary IP Rights." [D.I. 395] at 13-
28 14. The sole basis for Illumina's argument that the '794 patent is not a Core IP Right is that it
supposedly does not "pertain to" Ariosa's "use" of the Goods at all. *See* Ex. 62 (Illumina's
Response to Interrogatory No. 13) ([REDACTED])

§ III.B.1. In summary, the '794 patent, by Illumina's own assertions in its infringement action, "pertain[s] to" the Illumina HiSeq instrument.

The plain language of the SSA is further bolstered by the negotiation history. [REDACTED]

In summary, Ariosa has presented significantly more than the requisite minimal evidence that the SSA includes a license to the '794 patent and representation that Ariosa had all necessary license rights to the Illumina Intellectual Property, including the '794 patent.

Illumina violated these terms of the SSA by, among other things, filing this lawsuit. Illumina's only counterargument made in its anti-SLAPP motion is an assertion that a license would not prohibit it from filing suit. Mtn. at 10. Illumina cites no authority for this proposition, and it is directly contrary to Federal Circuit law. "[A] license is, by its nature, an agreement not to litigate. A licensor agrees to receive royalties or other consideration from the licensee in exchange for a covenant not to sue or disturb the licensee's activities." *MedImmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376, 1379 (Fed. Cir. 2005), *vacated on other grounds*, 549 U.S. 1163 (2007). *See also TransCore LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271, 1275 (Fed. Cir. 2009) ("As a threshold matter, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee.").

2. Ariosa Was Harmed By Illumina's Breaches

Illumina's damages arguments fare no better than its attempts to evade the plain language of the SSA. As an initial matter, there is no obligation for a party opposing an anti-SLAPP motion to "produce evidence supporting each theory of damages asserted in connection with the plaintiff's claims." *Wilbanks v. Wolk*, 121 Cal. App. 4th 883, 906 (2004) ("An anti-SLAPP-suit motion is not a vehicle for testing the strength of a plaintiff's case, or the ability of a plaintiff, so early in the proceedings, to produce evidence supporting each theory of damages asserted in connection with the plaintiff's claims. It is a vehicle for determining whether a plaintiff, through a showing of minimal merit, has stated and substantiated a legally sufficient claim."). Further, even had Ariosa not suffered substantial, quantifiable monetary damages—which it certainly has—Ariosa would still be entitled to move forward on its breach of contract claim because a litigant aggrieved by a breach of contract is entitled at the very minimum to nominal damages. *See* Cal. Civ. Code § 3360 ("When a breach of a duty has caused no appreciable detriment to the party affected, he may yet recover nominal damages.").

Moreover, Illumina does not even mention, much less present evidence contradicting, the extensive damages opinions presented by Ariosa's expert, Ryan Sullivan. *See* Ex. 53 (Sullivan Rpt.) at ¶¶ 133-144 [REDACTED] 145-176 [REDACTED] 177, 195-195 (excerpts from [REDACTED] 196-201 [REDACTED] 202, 208-209 (excerpts from [REDACTED] 212. Instead, Illumina asserts only conclusory, scattershot arguments about Ariosa's damages theories. To the extent they have any merit, they go to the weight of the evidence. Notably, Illumina does not argue that Mr. Sullivan's opinions are inadmissible, and did not file a *Daubert* motion seeking to challenge any of his opinions.

Further, Ariosa has provided evidence demonstrating that it had promising partnership prospects with multiple third party partners prior to April 24, 2014. *Id.* at ¶ 140. These partnerships fell through after the filing of the lawsuit, as a result of the prospective partners' hesitation over becoming dependent on Ariosa, given the lawsuit and its implications. *Id.* at ¶¶ 69, 141; Ex. 54 (Puckett Tr.) at 165:14-166:1, Ex. 55 (Mullarkey Tr.) at 169:23-173:9; Ex. 56 (Whitson Tr.) at 164:2-166:6, 170:14-21. Indeed, it is axiomatic that the filing of litigation and

1 threat to cut off the sole source of supply for a component chills a third party's eagerness to
2 associate with the target of a lawsuit. Illumina's conclusory argument that "there were numerous
3 and more substantial reasons why potential partners . . . were hesitant to enter a partnership with
4 Ariosa," Mtn. at 10, is at best an argument for the jury, and not one that entitles Illumina to
5 overcome Ariosa's evidence as a matter of law.

6 Similarly, Ariosa's evidence demonstrates that Illumina's misconduct resulted in a need to
7 abandon use of the Goods and accelerate its transition from the sequencing platform. Illumina's
8 argument that [REDACTED]
9 Mtn. at 10 (citing out-of-context deposition testimony). These events roughly coincided with
10 Illumina's [REDACTED] only because Illumina's violations of the SSA commenced [REDACTED]
11 [REDACTED]. In fact, until Illumina
12 breached the SSA's IP provisions by filing this lawsuit, [REDACTED]
13 [REDACTED]. See Ex. 53 (Sullivan Rpt.) at ¶ 75; Ex.
14 41 (Song Tr.) at 223:14-19, 224:20-225:5; Ex. 57 (Pls' Answer to Third Amended Counterclaims)
15 at ¶¶ 34-35.

16 Illumina also argues that Ariosa cannot demonstrate damages associated with the IPO
17 cancellation because [REDACTED] Mtn. at 10 (emphasis
18 removed). This is untrue. Ariosa [REDACTED]
19 [REDACTED] *cancelled* it once the lawsuit was filed. See, e.g., Ex. 41 (Song
20 Tr.) at 195:2-10, 197:6-25, 200:8-17; Ex. 58 (Gilliam Tr.) at 123:4-12, 155:8-10. [REDACTED]
21 [REDACTED]
22 [REDACTED] resolution of
23 a patent infringement lawsuit is more complex. [REDACTED]
24 [REDACTED]
25 Ariosa could not guarantee a quick resolution to any infringement allegations, which would
26 materially limit any IPO it launched while litigating with its sole supplier. It is clear that Ariosa's
27 decision to *cancel* its IPO was as a direct result of Illumina's infringement lawsuit under the '794
28 patent in breach of the license rights to that patent Illumina granted Ariosa under the SSA.

1 Finally, Illumina argues that section 18 of the SSA precludes Ariosa from recovering any
2 damages. That argument fails on multiple levels.

3 As an initial matter, Illumina simply ignores that, under the SSA, Ariosa paid Illumina at
4 least [REDACTED] for Goods that it ultimately had to abandon after Illumina breached the licenses
5 it provided Ariosa by suing Ariosa for infringement based on its use of those very same Goods for
6 its Harmony test. Ex. 59 (Yee Decl.) at ¶ 3. These are indisputably [REDACTED]

7 [REDACTED]
8 [REDACTED] There is
9 absolutely nothing in the limitation of liability clause that could foreclose recovery of those sums.

10 Further, under Illumina’s apparent interpretation that section 18 bars *all* recovery of
11 damages, even reimbursement for the payments made for the Goods, section 18 is unenforceable.
12 This would render Illumina’s obligations to deliver Goods wholly illusory. Further, so interpreted,
13 section 18 is unenforceable under California Civil Code section 1668, which provides that “[a]ll
14 contracts which have for their object, directly or indirectly, to exempt anyone from responsibility
15 for his own . . . willful injury to the person or property of another . . . are against the policy of the
16 law.” *BlueGem Security, Inc. v. Trend Micro Inc.*, No. 09-1492, 2010 WL 11505702 at *7-8 (C.D.
17 Cal. June 8, 2010) (emphasis in original); *id.* at *11 (striking limitation of liability clause in
18 contract case as unlawful under section 1668 because it “effective[ly] exempt[s defendant] from
19 any true liability for wrongdoing.”); *Civic Ctr. Dr. Apts. Ltd. P’ship v. S.W. Bell Video Servs.*, 295
20 F. Supp. 2d 1091, 1106 (N.D. Cal. 2003) (holding that section 1668 applies to breach of contract
21 claims and finding issues of fact as to enforceability of limitation of liability provision). A
22 reasonable factfinder could readily conclude that Illumina [REDACTED] injured Ariosa’s business [REDACTED]

23 [REDACTED] See
24 Opp. to Pls.’ MSJ at III.A.3.

25 Even if section 18 is deemed enforceable, it should be interpreted as merely imposing a
26 cap on damages. Section 18 states that [REDACTED]

27 [REDACTED] Ex. 44
28 (SSA) at § 18. As noted above, while the SSA was in effect, Ariosa paid Illumina at least [REDACTED]

1 [REDACTED] under the agreement. Ex. 59 (Yee Decl.) at ¶ 3. At a minimum, then, Ariosa may seek at
2 least [REDACTED] in damages from Illumina under its counterclaims. Illumina’s cited authority is
3 in agreement. *Hebert v. Rapid Payroll, Inc.*, No. 02-4144, 2005 WL 6172659, at *7 (C.D. Cal.
4 Feb. 9, 2005) (limitation of liability clause “limits Plaintiff’s claimable damages to the amount of
5 *payments made by Plaintiff to [defendant]*”) (emphasis added).

6 3. Ariosa’s Covenant Of Good Faith And Fair Dealing Claim

7 A claim for breach of covenant of good faith and fair dealing requires a showing of (1) a
8 valid contract, (2) performance or excuse for non-performance by the party asserting the breach,
9 (3) unfair interference of the rights conferred on the non-breaching party under the contract by the
10 breaching party, and (4) damages. CACI Jury Instruction No. 325. For the reasons discussed
11 above in connection with the breach of contract counterclaim, there is undisputed evidence
12 establishing all elements.

13 Illumina’s argument that Ariosa “cannot prove that Illumina unfairly interfered with
14 Ariosa’s right to receive the benefits of the Agreement” has no merit. The evidence reflects that
15 Illumina specifically and intentionally undermined the requirements and purpose of the SSA. Via
16 its pretextual assertions of breach culminating in its April 24, 2015 letter and its filing of the ’794
17 litigation the very next day, Illumina intentionally frustrated the purpose of the SSA and the rights
18 Illumina granted Ariosa thereunder.

19 Illumina contends that there can be no breach as it never terminated Ariosa’s right to
20 purchase Goods. This misses the point. The SSA provided for more than just a simple transfer of
21 sequencers and related products—it also involved the transfer of attendant rights needed to *use*
22 those products in the Harmony test. Illumina—which had become a competitor of Ariosa’s after
23 acquiring Verinata—intentionally frustrated Ariosa’s ability to use its sequencers for the Harmony
24 test, for which Ariosa had bargained and paid Illumina [REDACTED] Illumina’s actions clearly
25 frustrated the purpose and intent of the SSA and was motivated by Illumina’s desire to drive
26 Ariosa from the marketplace, rather than cooperate. *See Racine & Laramie, Ltd. v. Dep’t of Park*
27 *& Recreation*, 11 Cal. App. 4th 1026, 1031-32 (1992) (party breached covenant by frustrating
28 purpose of contract); *Airis SFO, LLC v. City & Cty. of S.F.*, No. A121855, 2010 WL 3687508, at

*12 (Cal. Ct. App. Sept. 22, 2010) (party breached covenant by undertaking actions that were “contrary to the contract’s purposes and the parties’ legitimate expectations”). Therefore, at the very minimum, Ariosa is entitled to damages at least in the amount it paid Illumina.

Illumina’s assertion that its “filing of the ’794 patent infringement action is in no way prohibited by the express terms of the Agreement” also fails. As discussed above, Illumina’s filing of the infringement action breached the express license and representations of sections 3(a) and [REDACTED]. Further, the covenant of good faith and fair dealing does not require breach of an express provision. Rather, California recognizes a covenant of good faith and fair dealing *implied* into every contract. *Storek & Storek Inc. v. Citicorp Real Estate*, 100 Cal. App. 4th 44, 55 (2002). This covenant is “based on general contract law and the long-standing rule ‘that neither party will do anything which will injure the right of the other to receive the benefits of the agreement.’” *Waller v. Truck Ins. Exch., Inc.*, 11 Cal. 4th 1, 36 (1995). Indeed, the covenant is useful in exactly situations as here, where a party attempts to “frustrate the other party’s rights to the benefits of the contract” even though they may claim that the conduct does “not technically transgress[] the express covenant[s]” of the contract. *Racine & Laramie*, 11 Cal. App. 4th at 1031-32. Thus, even if the SSA did not expressly prohibit Illumina’s conduct (and it does), the express license and representations that Ariosa’s use of the Goods did not require any additional licenses would plainly be frustrated by Illumina’s conduct, including its filing of the ’794 patent litigation.

B. Illumina Has Failed To Show That The Good Faith And Fair Dealing Claim Arises Solely From Protected Activity

Illumina acknowledges that Ariosa’s cause of action for breach of the covenant of good faith and fair dealing arises only *in part* from Illumina’s filing of this litigation. *See, e.g.*, Mtn. at 8 (“While Ariosa also alleges that Illumina breached the covenant of good faith and fair dealing ‘by asserting pre-textual claims of ‘breach’ of the Agreement’ . . .”). Illumina presents no argument that Illumina’s pretextual claims of breach based on Ariosa’s reporting of fetal sex determination have anything to do with protected petitioning activity. Thus, Illumina has waived any argument that Ariosa’s claim based on that activity is subject to the anti-SLAPP procedure.

1 Illumina’s attempt to lump all of Ariosa’s claims of breach together merely because they
2 are captioned collectively as claims for Breach of the Covenant of Good Faith and Fair Dealing is
3 improper. Under California law, the anti-SLAPP procedure is applied separately to individual
4 “claims” or “instance[s] of alleged wrongdoing,” whether or not they are collectively pled
5 together. *See Baral v. Schnitt*, 1 Cal. 5th 376, 394 (2016); *Sheley v. Harrop*, 9 Cal. App. 5th 1147,
6 1170 (2017). Where a cause of action is based on both protected and unprotected activity, the
7 claim based on protected activity may be subjected to an anti-SLAPP motion, but “[t]he remainder
8 of the cause of action shall remain undisturbed.” *Id.* at 1173. In *Sheley*, the plaintiffs (and cross-
9 complaint defendants) “asserted that the act of filing a lawsuit was a protected activity within the
10 meaning of section 425.16 . . . [and] that the filing of the lawsuit was a ‘core component[]’ of the
11 cross-complaint, and observed that allegations related to the filing and maintaining the lawsuit
12 appeared in each cause of action.” *Id.* at 1155.

13 **V. ILLUMINA’S REQUEST FOR ATTORNEYS’ FEES IS IMPROPER**

14 Even assuming away, arguendo, the numerous reasons discussed above that Illumina’s
15 motion has no merit, Illumina’s request for fees is also improper. A prevailing defendant on an
16 anti-SLAPP motion may seek only the reasonable fees and costs associated with the cost of its
17 filing of its anti-SLAPP motion. *See S. B. Beach Props. v. Berti*, 39 Cal. 4th 374, 381 (2006)
18 (“Consistent with this [Legislative purpose of the statute], the fee ‘provision applies only to the
19 motion to strike, and not to the entire action.’”) (quoting Sen. Com. on Judiciary, Analysis of Sen.
20 Bill No. 1264 (1991-1992 Reg. Sess.) as introduced Jan. 6, 1992, at 5). Accordingly, Illumina’s
21 request for “the fees and costs in defending against the Counterclaims,” Mtn. at 15, is clearly
22 improper. Indeed, Illumina does not—because it cannot—identify *any* fees uniquely attributable to
23 its anti-SLAPP motion to strike the counterclaims, as opposed to fees for other work that it
24 voluntarily chose to engage in over the last three years in which the counterclaims have been
25 pending.

1 **VI. CONCLUSION**

2 For the reasons set forth above, Illumina's motion should be denied.

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Respectfully submitted,

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6
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